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THE FINANCIAL SITUATION.

The month of August is traditionally

and almost paradoxically a month when

Wall Street absenteeism is at its height

and when the stock market is relatively

active. The reason for this is well under-

stood. In August the midsummer vaca-

tion taking is most pronounced and fewer

people are in Wall Street proper than at any

other time of the year. Such a circumstance

would, if unaltered by other conditions,

clearly make more for dullness than any-

thing else in financial affairs. But August

is really the greatest formative period of

the year in a stock market sense. In August

the probable size of the season's crops

gets to be pretty well ascertained, that is

to say, views clarify the probable nature

of the one great event of the year so far

as the stock market is concerned. In May

it is known in what shape the planting of

the crops has taken place; in August it is

learned not positively but with reasonable

surety what the outcome of the season's

there will be. The stock market proceeds, there-

fore, on both these occasions, and to a

greater extent, naturally, in the last named

month than the former one, to "discount"

the knowledge that it has gained. It is

perhaps needless to refer to the character

of this year's discounting, as it is now go-

ing on. It is almost certain to be the fact

that the year's crops, taken in bulk and

considered also from the point of view

of money value, will be the largest in the

country's history. With much the largest

crop, our most important article of

staple consumption, second largest,

and it may be the largest, wheat crop;

bumper yields of hay, oats and all the

minor grains, with only cotton showing

a falling off, but the loss here greatly com-

pensated for by the price of the staple

and by a large reserve stock in producers'

hands—can there be any wonder that a

boom has started in Wall Street, where

the keenest minds in the land are on the

alert for signs, good or bad, regarding the

business future? It is always well, of course,

not to be too hopeful and to err on the side

of caution rather than that of optimism;

but it must be said without reservation

that if present indications do not point

to a banner business year in the next twelve

months all reason and experience are at

fault and we should give up the study of

indications altogether. Not only is the

crop prospect magnificent, but the iron

and steel trade, the backbone of the coun-

try's manufacturing industry, is perhaps

in the most healthy state in which it

ever found itself. The copper and all the

metal trades, the lumber, textile and shoe

manufacturing businesses are all in the

strongest position. The labor outlook was

never better. The great crops now before

us mean that to all this prosperity another

year increment is to be added. The rail-

roads will not only be willing but will find

it necessary to plan large expenditures

among the iron and steel factories to ac-

commodate the new business that will

offer, and there is a not a business or a

wage earning individual in the land that

will not be favorably affected by the pres-

ence of the great amount of new wealth

taken out of the ground.

Looking back somewhat from the im-

mediate question of the crops, reference

must be made, even at the danger of making

tedious iteration, to one or two underlying

causes for the present financial status and,

specifically, for the ruling high prices of

securities. It began to be evident to close

observers even before the beginning of the

war in the Transvaal that a vast change

was making in the world's economic mat-

ters on account of the increase in the pro-

duction of gold. A gold inflation, as it

was taking place, was due to the decline in

the purchasing power of gold caused by

the enlarging quantity of the metal. This

was halted in some degree by the

stoppage of supplies from the South African

mines at the time of the war; but now that

these mines are again open and are pro-

ducing to their full owing to the employ-

ment of efficient labor the gold production

is again approximating record figures.

The world's finances and security prices

are, in plain words, exhibiting the after-

effect of an output of new gold in the last twenty

years equal to all the gold that had been

produced before that time in the world's

history as far back as the discovery of

America. Gold is worth less than it was

before, and it takes more gold than it did

to buy commodities and securities, that is

to say, the price of commodities and securi-

ties is rising, and as not only the Rand

but our own and other countries are

largely increasing their gold production

yearly no end to the process of inflation

thus described can be said to be in sight.

A second cause of almost incalculable

potency behind American prosperity has

been the increase in the country's popula-

tion and the radical change for the better in

the condition of the American farmer.

The increase of the population of the world

and of our own country in a ratio greater

than the production of foodstuffs has made

these foodstuffs worth more than they

were formerly and has caused the farming

occupation to be correspondingly more

remunerative. The result has been a de-

velopment of our Western section un-

paralleled by anything that has ever taken

place before in any land. There has been

a paying off of debts and an accumulation

of money in the West whose beneficial

influence has invigorated the nation, and its

results are most apparent though not per-

haps greatest in the growth of the Western

cities and the impetus given there to man-

ufacturing and to allied industries. Here

again the change appears to be of a per-

manent nature. There is an enormous

farmland to be brought under cultivation

in the United States and no way in which

the agricultural area can be increased save

by irrigation; a little but not much new

"soil" is to be found in Canada. Com-

paratively high prices for wheat and corn,

therefore, will probably rule, as they have

done for the last eight years, and the

farmers will profit enormously thereby.

To these elements of prevailing prosperity a

third must be added, and that is the ex-

treme conservatism and almost hesita-

tion with which our great business enter-

prises have been recently conducted. The fall

in values and the halt in business in 1903

taught, as is now seen, a much needed

lesson. Bankers and the heads of railway

and industrial concerns have taken business

steps since that time with great delibera-

tion. Many influential business men have

been skeptical as to the solid foundation of

the country's progress and have used their

power in moderating the forward move-

ment of the corporations with which they

are connected. The general tone of the

financial press has not been bullish.

There has been no issue on any large scale

of new securities. There has been no public

speculation in Wall Street, and save in one

or two sporadic and short lived instances,

like the Sully gamble in cotton, no runaway

market in anything has occurred. The net

result of this may be stated in a few

words, so far as Wall Street bearing is

involved. Values have increased in the

last two years far more rapidly than have

prices. The worth of securities as shown

by the increase in the surpluses of the com-

panies represented by them has enlarged

in a greater ratio than has the valuation

of these securities in the open market.

The only two drawbacks or rather un-

settled factors of the moment seem to be

the outcome of the peace negotiations be-

tween Russia and Japan and the probable

state of the money market in the next few

months. The last of these is mentioned

because there is a good deal of talk about

it, but the curious thing is that those who

should know most about it and have the

greatest pecuniary interest depending upon

the upshot of it say that there is no money

question at all. The abundance of money

all over the world is such, we are told on

the highest authority, that a 4 1/2 per cent.

money rate here sustained for any length

of time and brought about by the annual

crop moving would result in an importation

of gold from Europe to this side in large

quantities, and owing to a shortage in the

present European wheat crop it is now

exchangeable here on a large scale by pur-

chase of grain. It is to be remembered

that the swollen appearance of our bank

loan account is due, as it always is after a

long continuance of a low money rate, to

the fact that trust companies, owing to this

low rate, are out of the loan market and

that all the loans that are made show up

on the bank exhibit. A rise in money would

put the trust companies loaning again and

reduce the bank loan account in short

order. It seems sufficient to say on this

subject that loans are now being made on

miscellaneous collateral at 3 1/2 per cent.,

running until the middle of January. It

is, then, a possible hitch in the peace negotia-

tions to be feared? The best judgment is

strong that if there is a hitch it will not

adversely affect the security market. If

peace does not come it will be, so far as

the American stock market has any inter-

est in the affair, merely a prolongation of

a state of affairs that has existed now for

over a year and which seems on the face of

things to have done us good rather than